

March 1, 2004

Blaine D. Stockton
Assistant Administrator, Electric Program
U.S. Department of Agriculture
Rural Utilities Service
Room 5156 South Building
Stop 1560
1400 independence Avenue, SW
Washington, D.C. 20240-1560

RE: NPGA Comments regarding the December 30, 2003 Proposed Rule

Dear Mr. Stockton:

The purpose of this letter is to present the comments of the National Propane Gas Association (NPGA) on the December 30, 2003 Proposed Rule "to establish procedures for a guarantee program for cooperatives and other not-for-profit lenders that make loans eligible for assistance under the Rural Electrification Act of 1936." NPGA believes that this proposed loan guarantee program falls short of protecting the American people from debt issued by covered lenders.

NPGA is the national trade association of the LP-gas (principally propane) industry with a membership of over 3,600 companies, including 39 affiliated state and regional associations representing members in all 50 states. Although the single largest group of NPGA members are retail marketers of propane gas, the membership includes propane producers, transporters and wholesalers, as well as manufacturers and distributors of associated equipment, containers and appliances. Propane gas is used in over 18 million installations nationwide for home and commercial heating and cooking, in agriculture, in industrial processing, and as a clean air alternative engine fuel for both over-the-road vehicles and industrial lift trucks.

NPGA is strongly opposed to a major additional federal subsidy for rural electric cooperatives (RECs). Without this new \$3 billion plus Treasury guarantee, RECs already enjoy federal income tax exemption, low cost federal hydropower, \$5 billion annually in Rural Utilities Service (RUS) subsidized loans, grants from the Federal Emergency Management Administration (FEMA) for disaster assistance, economic development grants from the U.S. Department of Agriculture (USDA), and more. All of this results in significantly lower cost of capital compared with federal income tax paying private sector businesses. Now, with the addition of the proposed federal loan guarantee, RECs will enjoy an even more unfair competitive environment in which to compete against other private sector business.

Even with all the RECs' legal and financial advantages arrayed against them, small American companies engaged in the delivery of propane to residential, commercial and agricultural consumers continue to pursue their objective of achieving a level playing field for competition. That is, after all, the American way. NPGA believes that it is essential to make certain changes to the proposed loan guarantee program to prevent hundreds of millions in loan losses borne by federal taxpayers. First, NPGA strongly believes that any lender seeking an RUS guarantee conform to the requirements of the Federal Institutions Reform, Recovery and Enforcement Act (FIRREA). Second, any such lender should be subject to annual examinations by the Office of Thrift Supervision, the Controller of Currency, or a private accounting firm with no less than one-third of its total annual audit revenue coming from bank examinations.

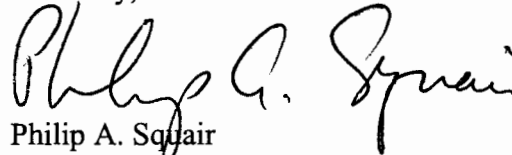
Third, NPGA believes the basic problem with the proposed rule is that the eligibility criteria in several different sections are insufficiently robust. For example, Section 1720.5 does not require that the amount of each guarantee for the life of the guarantee be collateralized with investment grade borrower mortgages with balances at least equal to the amount of the guarantee outstanding throughout the life of the guarantee. In this regard, NPGA would recommend that the criteria in 1720.5(c)(1) be strengthened to be capitalized beyond the 5% proposed, preferably to 8% of the guarantee amount to help protect taxpayers from losses. Moreover, NPGA believes that Section 1720.5(b)(4) should be amended to require that the final maturity of any guaranteed bonds is significantly less than the 15 years proposed, preferably 5 years, or 10 years at most.

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Fourth, and most importantly, it is absolutely essential that a new Section 1720.5(c)(3) be added stating the following: "As long as the guarantee is in effect, the lender shall not issue cash patronage refunds in excess of five percent of the total patronage refund eligible. Additionally, stock issued as part of the patronage refund shall not be redeemable in cash during the terms of any part of the guarantee. The lender shall not issue any dividends on any class of stock during the term of any guarantee." This new provision will help ensure that resources available to a covered lender are not over-committed, thereby protecting taxpayers from losses.

NPGA appreciates this opportunity to provide comments. Should you have questions or require further information, please don't hesitate to contact me.

Sincerely,



Philip A. Squair
Vice President
Regulatory and Technical Services

PAC/dmh

Cc: Seven Recipients

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